

Iraq Local Governance Program

Local Economic Development: The At Ta'mim Experience

Following the overthrow of Saddam Hussein's regime in March and April 2003, the coalition forces (CF) faced the immediate challenges of reviving the local economy, restoring employment, and laying the groundwork for the eventual transformation of Iraq into a free-market economy. In Kirkuk, in At Ta'mim Governorate, the Local Governance Program (LGP) assisted in these efforts by developing and implementing the Local Economic and Workforce Development (LEWFD) initiative.

One of the objectives of the U.S.-led Coalition Provisional Authority (CPA) in Iraq was the immediate resuscitation of the local economy to address the needs of dislocated workers and the high unemployment rate. Revival of the local economy was a necessary precursor to the creation of a free-market economy in Iraq, which in turn would help bring democracy and lasting prosperity and create a model that could lead to the spread of free-market-based democracy throughout the Middle East.

In May 2003, Ambassador L. Paul Bremer, the U.S. civilian administrator of Iraq, declared that Iraq was "open for business." The challenge facing the CPA and CF, however, was how to restore basic services and establish both a political structure and a policy environment that would lead to the creation of a vigorous free-market economy. In postconflict Iraq, people have little experience with an open-market economy. Because the economy

has been a heavily controlled, state-run system for decades, its legacy is one of limited private initiatives, citizen dependency on the state, and an economic infrastructure in shambles.

This brief describes the LGP's experience in helping launch an LEWFD initiative in the governorate of At Ta'mim, as well as lessons learned from that experience. Among the key lessons learned are that local governments that have developed strong institutional mechanisms for stakeholders' inputs, including partnerships with the private sector, are successful in attracting investment and generating employment. In addition, local governments that invest strategically in developing citizens' skills to meet current and future labor demand have a greater potential to create income and employment opportunities.

The Local Economic and Workforce Development initiative

In several areas in Iraq, LGP teams worked with governorate councils and officials and provided technical assistance and training to help them create enabling conditions for LEWFD initiatives. LEWFD is the process by which local government officials, citizens, businesses, and civil society organizations (CSOs) work together to create better conditions for economic growth and employment generation. To build a strong local economy, local governments and community interests need to collaborate to create an enabling policy/regulatory framework and an attractive environment for business (domestic and international), workers, and supporting institutions. The aim is to create successful enterprises and productive private-public partnerships to create wealth in local communities.

The United States Agency for International Development (USAID)/Iraq LGP, implemented by RTI International,* provided training, technical assistance, and other resources, including small grants, to establish and strengthen local administrations, civic institutions, and processes in order to establish, develop, and strengthen a participatory, democratic, subnational government that delivers effective and efficient services to Iraqis. The LGP responded to specific challenges faced by subnational governments, democratic institutions and processes, and CSOs. The program sought to empower individuals and civic groups to have a say in setting local social and economic development and investment priorities through democratic participation and interactions with local government leaders. The LGP began in March 2003 and ended in May 2005.

*RTI International is a trade name of the Research Triangle Institute.

Local government officials alone cannot generate a sustainable and growing local economy. Citizens and local interests, including the business community, must participate and partner with local government officials. The activities of the At Ta'mim LGP team are a good example of efforts to build institutional capacity and develop public-private partnership mechanisms that emphasize citizen participation and address the high unemployment rate in At Ta'mim's capital city, Kirkuk, a city of more than 1 million people.

At Ta'mim is often referred to as a microcosm of Iraq, and any progress made in building the capacity of local government institutions that are democratic and pluralistic can be seen as a barometer for progress throughout Iraq. The governorate of At Ta'mim is a major oil center producing roughly 40 percent of the country's oil, and it is of immense strategic importance, both politically and economically. At Ta'mim borders the Kurdish autonomous region and is ethnically diverse, populated by Kurds, Arabs, Turkomen, and Assyrian-Chaldeans. For historical, political, and economic reasons, ethnic groups have vied for control of the governorate, as well as the city of Kirkuk. Ethnic cleansing and other atrocities were committed under the former regime to "Arabize" the city. Hence, ethnic tensions run deep. The pronounced ethnic competition is compounded by a large and growing number of internally displaced persons and resultant property disputes. The politics of ethnicity and of the displaced permeate every facet of local government. Outside actors have a significant impact on local politics. Adding to these issues is the depressed local economy and very high unemployment rate. Unemployment is a major source of social dissatisfaction; it has exacerbated ethnic tension and contributed to a lack of overall stability and security.

The previous regime stifled private business development. Sanctions imposed since 1991 further crippled the economy, and the creation of parallel Ba'ath party structures undermined all public institutions. Decades of autocratic rule, war, and oppression have had a devastating effect on Iraq's public services, resulting in widespread underinvestment, mismanagement, and corruption. State-owned enterprises were the dominant manufacturing, service, and trade entities and were adversely affected by sanctions, war, and postwar looting. Because of the previous government's intervention in key sectors—oil, agriculture, and industry—the private sector has little capacity to respond to competition and generate growth. During the previous regime, the largest employers in At Ta'mim were the state-run Northern Oil Company (9,000 employees) and the state-owned cement and

brick factories, which employed many thousands. Approximately 38,000 people were on the government payroll. As of September 2003, the unemployment rate in Kirkuk stood at more than 50 percent.

In Kirkuk, some of the main challenges local government officials now face are how to support sustainable job creation outside of the oil sector and how to promote private sector investment. To this end, the CPA enacted some national reforms, including price liberalization, currency conversion, tax simplification, and abolition of tariffs and licensing requirements for trade. The legality of these reforms remains an issue, however, and the new Iraqi government may reverse the reforms.

Launching the Local Economic and Workforce Development initiative

The LGP implemented a number of initiatives to help launch economic activity in Iraq. Specifically, the LGP's LEWFD component focused on four broad areas of public resource management and decision making: it supported local government efforts to (1) improve the institutional environment for economic development, (2) identify and exploit key economic opportunities, (3) invest in strategic infrastructure, and (4) involve stakeholders in LEWFD policy decisions. The goal of this support was to help develop a strong private-sector-driven economy that can expand existing businesses, attract new private sector investment and ventures, and generate vitally needed employment opportunities.

The At Ta'mim LGP team supported four key institutions as part of its LEWFD initiative: (1) an employment services center, (2) a business center, (3) a vocational training center, and (4) a project coordination center. The first key institution, the Employment Services Center (ESC), created in June 2003, provides a mechanism for registering unemployed workers and placing them into jobs suited to their skills and experience as job openings occur either in the public or the private sector. The ESC facilitates merit-based, transparent hiring in both sectors. With its multiethnic staff, it operates openly and transparently to allay any fears of favoritism. The kind of assistance LGP provided includes (1) the creation of a common intake system and database that captures essential data of job seekers, (2) the creation of a system for matching job seeker skills with potential employers, (3) referral services to the Vocational Training Center (VTC) for job (re)training; and (4) establishment of a one-stop shop for prime contractors and subcontractors looking for qualified workers.

The second key institution, the Kirkuk VTC, is the one of the centers operated by the former regime's Ministry of Labor and Social Affairs (MOLSA). Reestablished with LGP support in September 2003, in close cooperation with the ESC, it trains and retrain workers in the skills required in the postwar economy. The VTC seeks to ensure that individuals are capable of benefiting from new opportunities in the labor market. The LGP provided ongoing training and capacity-building support to the VTC, including providing an updated vocational training curriculum to reflect changes in the postwar labor market. The VTC maintains regular contact with the At Ta'mim business community to stay abreast of workforce training needs and trends.

The goal of the third key institution, the Kirkuk Business Center (KBC), is to promote private business development and investment throughout the governorate. The KBC serves as a catalyst to help entrepreneurs, especially those focused on manufacturing, succeed in the transition to a market-based economy. It plays a key role in ensuring that prime contractors subcontract to Kirkuk companies. It also supports the private sector by providing the following one-stop-shop services:

- Information products (e.g., the *Kirkuk Business Journal*, the Business Registry) and networking services for citizens to connect with local, national, and international businesses;
- Investment products, including an investment tracker (for companies seeking partners for investment projects at various stages of development) and industry-specific market analysis (research conducted on demand for private investors);
- Technical assistance in business management skills; and
- Assistance in accessing and participating in public procurements led by the Iraq Project Coordination Office (PCO), including training programs on contract bidding and procurement.

The KBC has developed an extensive database and contacts with small and medium-sized enterprises throughout the governorate, and it has its own Web site: <http://kirkuk-business-center.org>. As major infrastructure projects were undertaken in Kirkuk, the KBC started staging conferences to bring together prime contractors with local contractors in Kirkuk and to enhance opportunities for locally based companies to subcontract with prime contractors on major projects.

The fourth key institution supported by the LGP, the Project Coordination Center (PCC), seeks to strengthen local government legitimacy through inclusion and empowerment. It constitutes a model approach to participatory integrated development planning that maximizes the use of civilian and military resources in a postconflict environment. The PCC coordinates all public infrastructure project prioritization, development, planning, and implementation in At Ta'mim. It provides a tool to governorate and district councils to assume greater control over project prioritization and facilitate donor coordination. The PCC uses a public bid board to promote transparency. Through the board, tenders are made public, and companies have equal access to all bid information.

These four institutions—the ESC, VTC, KBC, and PCC—function in a coordinated and collaborative manner. A working group established by the governorate council coordinates their activities. Working group members consist of key council members representing all ethnic groups, MOLSA directorate officials, and a range of interest groups. These latter groups include private sector representatives from key business associations, trade unions, and groups representing the unemployed and women. Establishment of this working group signaled a commitment among local authorities and stakeholders to launch an initiative to promote private sector expansion and job growth, thereby increasing stability and security in At Ta'mim. A LEWFD network was established by the Governorate Council with key stakeholders to share information, plan, program, and implement agreed-on action plans (see figure below).

Economic and Workforce Development Institutional Network (Kirkuk, Iraq)



* Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance

The key tasks of the working group were to identify economic sector growth opportunities and define an enabling environment for private sector investment and growth. A common theme emerged: the large infrastructure projects funded through the CPA PCO would have the most immediate impact on At Ta'mim's economy by creating thousands of construction jobs. It was also deemed essential to create a more business-friendly environment and improve transparency in government decision making. The LGP ensured that this participatory planning included both men and women, as well as representatives of different ethnic groups, rural communities, the private sector, and the unemployed.

The Local Economic and Workforce Development initiative results

The LEWFD initiative resulted in a measurable increase in citizen participation, especially through frequent public meetings that led to greater public participation in planning and development. Local government and CSOs demonstrated a willingness to partner with one another to address the growing problem of unemployment. Private sector involvement helped to educate local government authorities and CSOs on the changes under way in the local economy and the steps necessary to foster job growth through the support of small and medium-sized enterprises. Women's participation also increased, leading directly to the construction of an additional wing in the VTC for training in textiles and sewing to support women's enterprises.

The LEWFD initiative helped create conditions that led to the generation of 12,000 jobs. The KBC played a critical role in assisting Kirkuk contractors to obtain subcontracts and employ local workers in the first and largest public infrastructure project to be implemented in Kirkuk, the Iraqi Army Base Project. The KBC was recognized for its role in promoting economic development during a visit to the KBC by U.S. Ambassador Negroponte in August 2004.

The PCC's public bid board established an open and fair system for tenders and bids; led to increased transparency; and reduced distrust of government institutions, the CPA, and donors, as evidenced by fewer complaints from the public. The business community cited the public bid board as being a particularly noteworthy innovation.

Significantly, At Ta'mim local government authorities took ownership of the LEWFD initiative and promoted the approach in a regional conference in Kirkuk in November 2004. The purpose of the conference was to share best practices and lessons learned on LEWFD planning with local government officials from around the country.

Lessons

Two challenges confronting Iraqis after the war are (1) rebuilding and maintaining social cohesion and (2) transitioning from a centrally planned to a decentralized, market-based economy. Iraq's political, social, and economic challenges are intertwined. They must be met in parallel. At the local level, it is vital to build efficient and inclusive public institutions for long-term political stability and economic growth. Increasing transparency and accountability at all levels will strengthen institutions and build citizens' trust in government.

Perhaps the most important lesson learned from this experience is that even in the absence of a central government policy framework, local governments can work with citizens and local businesses to revitalize their economy and create the conditions that generate employment opportunities. LEWFD planning leveraged development dollars and facilitated more cost-effective implementation of major infrastructure projects. However, the sustainability of LEWFD activities will depend, initially, on the central authorities' willingness and local authorities' ability to provide funding to pay salaries for staff in the various institutions (ESC, VTC, KBC, and PCC) and, in the long-term, on the ability of these institutions to charge user fees.

The LEWFD initiative in Kirkuk illustrates the significant role that local governance programs can play in postconflict recovery. An important lesson distilled from the Kirkuk experience is that LEWFD planning promotes interethnic cooperation, supports public-private partnerships, and can be a stabilizing factor.

Improving the institutional infrastructure for economic growth

Localities that create and use integrated local government institutions that maximize participation of the private sector and community interests have a higher success rate in developing a vigorous local economy with the potential to generate employment and create wealth for local communities. The LGP's work in Kirkuk helped to create the ESC, VTC, KBC, and PCC, which are coordinated by a working group comprising representatives of the governorate council, business community, MOLSA, and CSOs.

Exploiting key economic opportunities

Understanding future economic development trends and preparing local stakeholders are critical in developing the institutions and the workforce needed to attract new investment and boost the productivity of the local economy. Local government, being closest to the activity on the ground, has

a comparative advantage in identifying and linking the local economy to these emerging opportunities. It can also facilitate development of the skills and expertise of business partners within strategically targeted, potentially high-growth sectors. This means that all across Iraq, Iraqis need to understand which areas of the economy have the potential to achieve regional or world-class performance, because it is in these areas that Iraq is most likely to attract the outside investment and technology required to modernize the economy. The information and knowledge base developed and made available to investors by KBC is a positive step in this direction.

Involving stakeholders

As demonstrated by the Kirkuk experiment, effective public decision making depends on citizen participation, particularly in regions where ethnic and religious tensions are high. Ensuring that every segment of society participates and that the inputs, ideas, and concerns of all interested stakeholders are reflected in local government decision making is critical for sustaining LEWFD. Each person who participates brings knowledge, values, and experience to the dialogue and decision-making process. These approaches are all grounded in the assumption that democratic processes, rather than hierarchy or bureaucracy, are the best ways to create effective change.

Making strategic investments in infrastructure

Investing in key infrastructure, such as electric power generation and distribution, water treatment and water distribution networks, sewerage, the local road network, and security, is vital to local economic development. Kirkuk's project priorities reflect these needs. Further, the private sector can play a major role in developing this critical economic infrastructure.

Local Economic Development: The At Ta'mim Experience was written by Samuel Taddesse and Derick W. Brinkerhoff, based on LGP project documents and input from Patrick O'Mahony. This brief is dedicated to the memory of Andrew B. Horgan, who led the LGP team in Kirkuk, At Ta'min.

Lessons Learned Briefs are intended to document experience and lessons learned from RTI's projects in international development. The series on the Iraq LGP examines the program's efforts to strengthen local governance in Iraq and presents lessons that may be applicable to other interventions in failed states and postconflict societies. The views expressed in the briefs are solely those of the authors and should not be attributed to USAID or RTI International. The *Lessons Learned Brief* series editors are Derick W. Brinkerhoff and Samuel Taddesse.

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